

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Muskegon County Road Commission</b>	County <b>Muskegon</b>
Audit Date <b>9/30/05</b>	Quarter Date <b>12/14/05</b>	Date Accountant Report Submitted to State <b>12/21/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

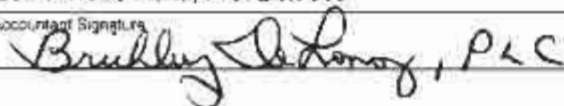
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year, if the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).	✓		

Certified Public Accountant (Firm Name) <b>Brickley DeLong, PLC</b>			
Street Address <b>500 Terrace Plaza, P.O. Box 999</b>	City <b>Muskegon</b>	State <b>MI</b>	ZIP <b>49443-0999</b>
Accountant Signature 		Date <b>12/21/05</b>	

Muskegon County Road Commission

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended September 30, 2005

Muskegon County Road Commission

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# MUSKEGON COUNTY ROAD COMMISSION

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## Management's Discussion and Analysis

Our discussion and analysis of the Muskegon County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended September 30, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplemental information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements, government-wide statements and fund statements.

### REPORTING THE ROAD COMMISSION AS A WHOLE

#### Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and how they changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the condition of the Road Commission's roads and changes in the law related to gas taxes and their distribution need to be considered.

#### Fund Financial Statements

The Road Commission currently has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

### FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

After a restatement of \$29,323,062 for retroactive infrastructure, the Road Commission's net assets increased approximately 3% from \$57,891,303 to \$59,615,743 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

#### Net Assets

Restricted net assets are those net assets that have constraints: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The restricted net assets decreased by \$1,428,981 during 2005. The primary reason for the decrease was that there was insufficient financing from other sources to accomplish the scope of planned projects. Therefore the Road Commission decided to use a portion of our net assets.

Effective October 1, 2004, the Road Commission restated its financial statements to record infrastructure acquired or constructed prior to October 1, 2000, as required by GASB Statement No. 34. This restatement increased the invested in capital assets, net of related debt portion of net assets by \$29,323,062. After this restatement, the investment in capital assets, net of related debt increased by \$3,153,421. The increase is primarily the result of the reporting of infrastructure additions for the current year.

Net assets are as follows:

Assets	2005	2004
Current and other assets	\$ 10,124,183	\$ 10,858,167
Capital assets	54,043,124	21,629,081
Total assets	64,167,307	32,487,248
Liabilities		
Long-term liabilities outstanding	2,102,621	2,297,503
Other liabilities	2,448,943	1,621,504
Total liabilities	4,551,564	3,919,007
Net assets		
Invested in capital assets, net of related debt	54,105,564	21,629,081
Restricted	5,510,179	6,939,160
Total net assets	\$ 59,615,743	\$ 28,568,241

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

### Change in Net Assets

- **Federal Aid** – The amount of funding received from federal sources fluctuates from year to year based on the type of projects that the Road Commission qualifies for. As with all funding sources, the needs far exceed the resources available. Therefore funding is awarded based on the greatest need and the organization's ability to provide the matching funds.
- **State Aid** – Two factors contributed to the reduction in state aid during 2005. First, as projected the Road Commission's MTF revenue declined due to the tapering off of the effects of licensing fee changes that were implemented in 2003/2004. Also, in 2004 the Road Commission received a one time payment for the jurisdictional transfer of a portion of old US 31.
- **Contributions from Local Units** – The Road Commission partners with its townships to upgrade the local road system. The amount and scope of these projects from year to year are determined by the townships' ability to provide matching funds and the Road Commission's budget committed to participation projects.
- **Interest Income** – This increase is a result of the steadily climbing interest rates.
- **Primary Roads Expense** – Part of the Road Commission's long-term efforts to maximize the use of our funds is to pursue an aggressive preventative maintenance program. To that end in 2005 the Road Commission chip sealed 73.5 miles for a cost of \$1.3 million. In addition there was a significant increase in depreciation expense in 2005 due to booking the retroactive infrastructure in compliance with GASB 34.
- **Local Roads Expenses** – Booking the retroactive infrastructure also significantly impacted depreciation expense for local roads.

A summary of changes in net assets are as follows:

	2005	2004
Revenues		
Program revenues		
Licenses and permits	\$ 60,350	\$ 45,960
Federal aid	1,476,073	1,739,452
State aid	9,953,836	10,534,263
Contributions from local units	395,751	266,885
Charges for services	2,059,004	2,189,771
Interest income	162,712	57,319
General revenues		
Property rentals	6,900	6,900
Gain on disposal of capital assets	23,682	82,592
Other	18,159	30,021
Total revenues	14,156,467	14,953,163

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

	2005	2004
Expenses		
Primary roads	\$ 5,044,225	\$ 3,247,733
Local roads	4,621,218	3,325,473
State trunkline	1,826,519	1,964,548
Net administrative	521,139	510,268
Reimbursable services	360,957	281,748
Interest on long-term debt	57,969	23,000
Total expenses	<u>12,432,027</u>	<u>9,352,770</u>
Change in net assets	1,724,440	5,600,393
Net assets at beginning of year	28,568,241	22,967,848
Restatement at October 1	<u>29,323,062</u>	<u>-</u>
Net assets at end of year	<u>\$ 59,615,743</u>	<u>\$ 28,568,241</u>

### The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended September 30, 2005, the fund balance of the General Operations Fund decreased \$1,569,833, as compared to an increase of \$3,775,394 in the fund balance for the previous year. Total operating revenues were \$14,156,467, a decrease of \$796,696 as compared to last year. The change in revenues resulted substantially from a reduction in federal and state aid. Total expenditures were \$15,726,300, an increase of \$2,533,059 as compared to last year. This change in expenditures is due primarily to the significant amount of funds allocated to chip seal preventative maintenance operations.

A summary of changes in the General Operations Fund are as follows:

	2005	2004
Revenues		
Licenses and permits	\$ 60,350	\$ 45,960
Federal aid	1,476,073	1,739,452
State aid	9,953,836	10,534,263
Contributions from local units	395,751	266,885
Charges for services	2,059,004	2,189,771
Interest income	162,712	57,319
Other revenue	48,741	119,513
Total revenues	<u>14,156,467</u>	<u>14,953,163</u>

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

	2005	2004
Expenditures		
Public works	14,927,575	13,336,458
Capital outlay (net)	525,943	(143,217)
Debt service	272,782	-
Total expenses	15,726,300	13,193,241
Excess of revenues over (under) expenditures	(1,569,833)	1,759,922
Other financing sources		
Bonds issued	-	2,000,000
Premium on bonds	-	15,472
Total other financing sources	-	2,015,472
Excess of revenues and other financing sources over (under) expenditures	(1,569,833)	3,775,394
Fund balance at beginning of year	9,223,760	5,448,366
Fund balance at end of year	\$ 7,653,927	\$ 9,223,760

### BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditure requests throughout the year.

The final amended revenues budget for the year ended September 30, 2005 was \$288,508 higher than the original budget primarily due to higher than originally budgeted MTF revenue. These revenues are conservatively forecasted as many factors, locally and globally, effect the motoring public's consumption of fuel and vehicle purchases and thus impact the revenues generated by fuel and license sales. The actual revenues recognized for the year was greater than the final amended budget by \$65,577. Two months of MTF revenues are projected when preparing our final budget adjustments and for the two months combined, the Road Commission received \$39,297 more than estimated. Actual state trunkline nonmaintenance revenues were \$28,748 higher than budgeted due to several small projects awarded and subsequently completed late in September.



# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

The final amended expenditures budget for the year ended September 30, 2005 was \$130,901 lower than the original budget primarily due to carrying over the purchase of the new fueling system to the 2005/2006 fiscal year. The actual expenditures recognized for the year were less than the final amended budget by \$293,699. Total actual primary road expenditures were \$8,616,739 as compared to a budget of \$8,644,269 with a net affect of a favorable budget variance of \$27,530. A reclassification of bridge painting expenses from heavy maintenance to routine maintenance accounted for the line item variances within this category. The total local road expenditures were \$3,984,438 as compared to a budget of \$4,000,341 with a net effect of a favorable budget variance of \$15,903. When the budget adjustments are prepared, certain assumptions are made about the status of project costs and revenues through the end of the fiscal year. These projections are affected by factors such as weather conditions (favorable or adverse), material availability and various conditions beyond our control or planning. In this case, the resources that were not used in heavy maintenance were reallocated to routine maintenance. This reallocation resulted in budget variances between these two line items but combined did not cause an unfavorable effect on the total budget for local roads.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

As of September 30, 2005, the Road Commission had \$54,043,124 invested in capital assets. After recording retroactive infrastructure of \$29,323,062 at the beginning of the year, this amount represents a net increase (including additions and deductions) of \$3,090,981 or 6% as follows:

	2005	2004
Capital assets not being depreciated		
Land and improvements	\$ 18,821,714	\$ 17,705,619
Construction in progress	339,096	2,557,506
Total capital assets not being depreciated	19,160,810	20,263,125
Capital assets being depreciated		
Buildings and improvements	3,896,421	3,890,436
Road equipment	8,428,804	8,242,929
Other equipment	2,900,363	2,142,705
Infrastructure and improvements	55,099,552	49,104,371
Total capital assets being depreciated	70,325,140	63,380,441
Less accumulated depreciation	(35,442,826)	(32,691,423)
Total capital assets, being depreciated, net	34,882,314	30,689,018
Total capital assets, net	\$ 54,043,124	\$ 50,952,143

Current year's major additions included the following:

Construction of salt shed	\$ 795,022
Bridge repairs	215,772
Various reconstruction/resurfacing projects	4,793,121
Trucks/equipment	484,299

Additional information on capital assets can be found in note D of the notes to the financial statements.

# MUSKEGON COUNTY ROAD COMMISSION

## Management's Discussion and Analysis

### Debt

As of September 30, 2005, the Road Commission had \$2,102,621 in long-term debt outstanding. This is a decrease of \$194,882 which is due to scheduled normal debt repayments. The long-term debt outstanding is comprised of Michigan Transportation Fund bonds of \$1,812,659 and compensated absences of \$289,962.

Additional information on long-term debt can be found in note F of the notes to the financial statements.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Each year, the Road Commission's board considers many factors when reviewing and approving our budget. The Road Commission's mission is to continue our commitment to preserving and rehabilitating the existing road system. This is a daunting proposition given the condition of the aging public road system and the reality of declining revenues while at the same time experiencing ever increasing operating costs and demands for service. To accomplish the plans set forth in the 2005/2006 budget the Commission will once again be forced to use a portion of our fund balance. Without significant increases in revenue from Federal, State and local sources, our ability to preserve, maintain and reconstruct the public road system will be severely limited in future budgets and the level of effort that has been seen through the current budget will be severely curtailed.

As noted last year, the slow growing economy does not seem to have impeded development and growth within a number of our local townships. Business and residential growth continues to further strain the Commission's budget as there are continuing demands for access to open areas and new subdivisions. Given the projected decline in revenue sources and the minimal increases per mile in Michigan Transportation Funds (MTF), we continue to see no reason for expansion of the existing system.

The recent fluctuations in fuel costs caused by hurricanes in the last 4 months affects the Commission in two ways. The increasing costs at the pump impacted the Road Commission with both lower revenue from MTF as motorists drive fewer miles and the additional cost to operate our fleet. While the Road Commission is exempt from the fixed amount of tax on the fuel, its costs rise at the same percentage as the public's when pump prices increase. In addition, the Road Commission's maintenance responsibility for the public highway system under Act 51 do not allow for reduced fuel usage.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Muskegon County's transportation system at the end of its useful life. Therefore, the board attempts to spend the public's money wisely and equitably throughout the county in the best interests of the motoring public and the citizens of Muskegon County.

### CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department at the Muskegon County Road Commission administrative offices at 7700 East Apple Avenue, Muskegon, Michigan 49442.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

December 14, 2005

Board of County Road Commissioners  
Muskegon County Road Commission  
Muskegon, Michigan

We have audited the accompanying financial statements of the Muskegon County Road Commission, a component unit of the County of Muskegon, as of and for the year ended September 30, 2005, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muskegon County Road Commission, as of September 30, 2005, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2005, on our consideration of the Muskegon County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

BRICKLEY DELONG

Board of County Road Commissioners  
December 14, 2005  
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The management's discussion and analysis and budgetary comparison information on pages i through vii and 21 and 22 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Muskegon County Road Commission's basic financial statements. The accompanying supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Brickley DeLong, P.C.*

Muskegon County Road Commission  
**STATEMENT OF NET ASSETS**  
September 30, 2005

ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 4,665,071
Accounts receivable	
State trunkline maintenance	157,938
State Department of Transportation	
Michigan Transportation Fund	1,592,112
Other	253,026
Due on county road agreements	316,696
Other	94,580
Inventories	
Road materials	429,445
Equipment materials and parts	488,277
Prepaid items	<u>219,626</u>
Total current assets	8,216,771
NONCURRENT ASSETS	
Restricted assets	1,875,099
Capital assets, net	
Nondepreciable	19,160,810
Depreciable	34,882,314
Bond issue costs, net	<u>32,313</u>
Total noncurrent assets	<u>55,950,536</u>
Total assets	64,167,307
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	1,495,715
Accrued liabilities	73,975
Due to other governmental units	5,741
Advances - state trunkline	
Equipment purchase	254,069
Maintenance	157,263
Deferred revenue - forest roads	462,180
Bonds payable - due within one year	200,000
Compensated absences - due within one year	<u>190,000</u>
Total current liabilities	2,838,943
NONCURRENT LIABILITIES	
Bonds payable - less amounts due within one year	1,612,659
Compensated absences - less amounts due within one year	<u>99,962</u>
Total noncurrent liabilities	<u>1,712,621</u>
Total liabilities	<u>4,551,564</u>
NET ASSETS	
Invested in capital assets, net of related debt	54,105,564
Restricted for county roads	<u>5,510,179</u>
Total net assets	<u>\$ 59,615,743</u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2005

Program expenses	
Primary road	\$ 5,044,225
Local road	4,621,218
State trunkline	1,826,519
Net administrative	521,139
Reimbursable services	360,957
Interest on long-term debt	<u>57,969</u>
Total program expenses	12,432,027
Program revenues	
Charges for services	
Licenses and permits	60,350
Charges for services	2,059,004
Operating grants and contributions	
Michigan Transportation Funds	9,538,324
Interest income	162,712
Capital grants and contributions	
Federal grants	1,476,073
State grants	415,512
Contributions from local units	<u>395,751</u>
Total program revenues	<u>14,107,726</u>
Net program revenues	1,675,699
General revenues	
Property rentals	6,900
Gain on disposal of capital assets	23,682
Other	<u>18,159</u>
Total general revenues	<u>48,741</u>
Change in net assets	1,724,440
Net assets at October 1, 2004	<u>57,891,303</u>
Net assets at September 30, 2005	<u><u>\$ 59,615,743</u></u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**BALANCE SHEET**  
September 30, 2005

	General Operations Fund
ASSETS	
Cash and investments	\$ 4,665,071
Receivables	
State trunkline maintenance	157,938
State Department of Transportation	
Michigan Transportation Fund	1,592,112
Other	253,026
Due on county road agreements	316,696
Other	94,580
Inventories	
Road materials	429,445
Equipment materials and parts	488,277
Prepaid items	219,626
Restricted assets	1,875,099
Total assets	<u>\$ 10,091,870</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 1,495,715
Accrued liabilities	62,975
Due to other governmental units	5,741
Advances - state trunkline	
Equipment purchase	254,069
Maintenance	157,263
Deferred revenue - forest roads	462,180
Total liabilities	<u>2,437,943</u>
Fund balance	
Reserved for:	
Inventories	917,722
Prepaid items	219,626
Bridge construction	1,875,099
Unreserved	
Designated	1,073,897
Undesignated	3,567,583
Total fund balance	<u>7,653,927</u>
Total liabilities and fund balance	<u>\$ 10,091,870</u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS**  
September 30, 2005

Total fund balance—governmental funds	\$	7,653,927
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Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$ 89,485,950	
Accumulated depreciation	<u>(35,442,826)</u>	54,043,124

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	35,903	
Accumulated amortization	<u>(3,590)</u>	32,313

Long-term liabilities in governmental activities are not due and payable in the current  
period and are not reported in the governmental funds.

Bonds payable	(1,800,000)	
Unamortized bond premium	(12,659)	
Compensated absences	<u>(289,962)</u>	(2,102,621)

Accrued interest in governmental activities is not reported in the governmental funds.		<u>(11,000)</u>
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Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>59,615,743</u></u>
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The accompanying notes are an integral part of this statement.



Muskegon County Road Commission  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
For the year ended September 30, 2005

	General Operations Fund
REVENUES	
Licenses and permits	\$ 60,350
Federal aid	1,476,073
State aid	9,953,836
Contributions from local units	395,751
Charges for services	2,059,004
Interest income	162,712
Other revenue	48,741
Total revenues	14,156,467
EXPENDITURES	
Public works	14,927,575
Capital outlay (net)	525,943
Debt service	272,782
Total expenditures	15,726,300
Net change in fund balance	(1,569,833)
Fund balance at October 1, 2004	9,223,760
Fund balance at September 30, 2005	\$ 7,653,927

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 For the year ended September 30, 2005

Net change in fund balance—total governmental funds: \$ (1,569,833)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives.

Depreciation and amortization expense	\$ (3,109,476)	
Capital outlay	<u>6,197,066</u>	3,087,590

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

Gain on sale of capital assets	23,682	
Net proceeds from sale of capital assets	<u>(23,881)</u>	(199)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Repayment of principal on long-term debt	200,000	
Amortization of bond premium	<u>2,813</u>	202,813

Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.

12,000

Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.

(7,931)

Change in net assets of governmental activities	\$ <u><u>1,724,440</u></u>	
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The accompanying notes are an integral part of this statement.

Muskegon County Road Commission  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Muskegon County Road Commission (Road Commission) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Road Commission's accounting policies are described below.

The Road Commission implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38 on October 1, 2000. A significant change required by these statements was the inclusion of the Road Commission's infrastructure on new full accrual government-wide financial statements. These statements require the Road Commission to record infrastructure acquired or constructed prior to October 1, 2000 within four years of implementing the statements. Effective October 1, 2004, the Road Commission recorded this infrastructure.

The beginning net assets restated for the effects of prior year infrastructure are as follows:

Net assets at October 1, 2004	\$ 28,568,241
Infrastructure acquired or constructed prior to October 1, 2000, net	<u>29,323,062</u>
Restated net assets at October 1, 2004	<u>\$ 57,891,303</u>

**1. Reporting Entity**

The Muskegon County Road Commission (Road Commission), which is established pursuant to the County Road Law (MCL 224.1), is governed by a three-member Board of County Commissioners appointed by the Muskegon County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to the Muskegon County Board of Commissioners' approval.

The criteria established by the GASB Statement No. 14, *The Financial Reporting Entity*, for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Muskegon County Road Commission, a discretely presented component unit of the County of Muskegon. No organizations meet this criteria for the Road Commission and therefore none are included in the financial statements.

The Road Commission General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission's General Operations Fund.

Muskegon County Road Commission  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
September 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**2. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Road Commission. There are only governmental activities reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the General Operations Fund (governmental fund). The General Operations Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Amounts reported as programs revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available, it is the Road Commission's policy to use restricted resources first.

Muskegon County Road Commission  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
September 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity**

**a. Deposits and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Road Commission reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Road Commission intends to hold the investment until maturity.

The Road Commission has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Road Commission to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

**b. Inventories and Prepaid Items**

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

**c. Restricted Assets**

Proceeds of the Road Commission's Michigan Transportation Fund Notes, Series 2004 are restricted for the construction of bridges. These amounts have been classified as restricted assets.

**d. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Schedule C equipment has no minimum cost. However, such assets are recorded at historical cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	25 - 50 years
Road equipment	5 - 8 years
Other equipment	4 - 20 years
Infrastructure - roads	8 - 30 years
Infrastructure - bridges	12 - 50 years

Muskegon County Road Commission  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
September 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**e. Compensated Absences**

Road Commission employees are granted vacation and sick leave in varying amounts based on length of service. The Road Commission accrues unused portions of vacation pay in the period the fund liability is incurred. The liability is based on the sick leave accumulated at year end by those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, a liability for these amounts is reported in the governmental fund only for employee terminations as of year end.

**f. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, the governmental fund type recognizes bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**g. Fund Equity**

In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**h. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**1. Budgetary Information**

Budgetary procedures are established pursuant to Act 621 PA 1978, as amended, (MCL 141.421) which requires the commissioners to approve a budget for the General Operations Fund. Pursuant to the Act, the Road Commission follows these procedures in establishing the budgetary information provided in the financial statements:

- a. The director of financial services submits to the Board of Commissioners, a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

Muskegon County Road Commission  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
September 30, 2005

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**1. Budgetary Information—Continued**

- b. A public hearing is conducted at the Road Commission to obtain public comments.
- c. Prior to September 30, the budget and annual appropriations are legally adopted by the Board of Commissioners.
- d. Formal budget integration is employed as a management control device during the year for the General Operations Fund.
- e. Budgets as presented are prepared on the modified accrual basis of accounting.
- f. Budgetary control is exercised at the category level.
- g. The budgetary information presented has been amended during the year by an official action of the Board of Commissioners.
- h. All budget appropriations lapse at year end.

**2. Excess of Expenditures Over Appropriations**

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. For the year ended September 30, 2005, expenditures exceeded appropriations for primary road maintenance by \$139,284 and local road maintenance by \$88,756. These overexpenditures were funded with available fund balance.

**NOTE C—DEPOSITS AND INVESTMENTS**

**Interest rate risk.** The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Road Commission has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The Road Commission does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Road Commission investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. As of September 30, 2005, \$7,169,381 of the Road Commission's bank balance of \$7,269,381 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Muskegon County Road Commission  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
September 30, 2005

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**Custodial credit risk - investments.** The Road Commission does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The Road Commission is not authorized to invest in investments which have this type of risk.

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2005 was as follows:

	Balance October 1, 2004	Additions	Deductions	Balance September 30, 2005
<b>Capital assets, not being depreciated:</b>				
Land and improvements	\$17,705,619	\$ 1,116,095	\$ -	\$18,821,714
Construction in progress	<u>2,557,506</u>	<u>290,767</u>	<u>2,509,177</u>	<u>339,096</u>
Total capital assets, not being depreciated	20,263,125	1,406,862	2,509,177	19,160,810
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	3,890,436	5,985	-	3,896,421
Road equipment	8,242,929	457,642	271,767	8,428,804
Other equipment	2,142,705	840,574	82,916	2,900,363
Infrastructure and improvements	<u>49,104,371</u>	<u>5,995,181</u>	<u>-</u>	<u>55,099,552</u>
Total capital assets, being depreciated	63,380,441	7,299,382	354,683	70,325,140
Less accumulated depreciation for:				
Buildings and improvements	1,904,764	136,993	-	2,041,757
Road equipment	6,960,884	537,505	271,567	7,226,822
Other equipment	1,505,581	103,558	82,916	1,526,223
Infrastructure and improvements	<u>22,320,194</u>	<u>2,327,830</u>	<u>-</u>	<u>24,648,024</u>
Total accumulated depreciation	<u>32,691,423</u>	<u>3,105,886</u>	<u>354,483</u>	<u>35,442,826</u>
Total capital assets, being depreciated, net	<u>30,689,018</u>	<u>4,193,496</u>	<u>200</u>	<u>34,882,314</u>
Capital assets, net	<u>\$50,952,143</u>	<u>\$ 5,600,358</u>	<u>\$ 2,509,377</u>	<u>\$54,043,124</u>

Depreciation expense was charged to programs of the Road Commission as follows:

Primary road	\$ 1,155,965
Local road	1,858,860
State trunkline	70,847
Administrative	<u>20,214</u>
	<u>\$ 3,105,886</u>



Muskegon County Road Commission  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
September 30, 2005

**NOTE E—BOND ISSUANCE COSTS**

	Balance October 1, 2004	Additions	Deductions	Balance September 30, 2005
Issuance costs (10 years)	\$ 35,903	\$ -	\$ -	\$ 35,903
Less accumulated amortization	<u>-</u>	<u>(3,590)</u>	<u>-</u>	<u>(3,590)</u>
Total bond issuance cost, net of accumulated amortization	\$ <u>35,903</u>	\$ <u>(3,950)</u>	\$ <u>-</u>	\$ <u>32,313</u>

**NOTE F—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

Long-term debt at September 30, 2005 consisted of the following:

	Balance October 1, 2004	Additions	Deductions	Balance September 30, 2005	Due within one year
Michigan Transportation Fund bond	\$ 2,015,472	\$ -	\$ 202,813	\$ 1,812,659	\$ 200,000
Compensated absences	<u>282,031</u>	<u>337,406</u>	<u>329,475</u>	<u>289,962</u>	<u>190,000</u>
Governmental activities long-term liabilities	\$ <u>2,297,503</u>	\$ <u>337,406</u>	\$ <u>532,288</u>	\$ <u>2,102,621</u>	\$ <u>390,000</u>
\$2,000,000 Michigan Transportation Fund Notes, Series 2004; due in annual installments of \$200,000 through 2014; interest at 3% to 4%				\$ 1,800,000	
Plus issuance premium				<u>12,659</u>	
				1,812,659	
Compensated absences				<u>289,962</u>	
				\$ <u>2,102,621</u>	

The Michigan Transportation Fund bonds are backed by the full faith and credit of the Road Commission.

Annual debt service requirements to maturity for debt outstanding as of September 30, 2005 follows:

Year ending September 30,	Principal	Interest
2006	\$ 200,000	\$ 63,500
2007	200,000	57,500
2008	200,000	51,500
2009	200,000	45,000
2010	200,000	38,000
2011-2014	<u>800,000</u>	<u>78,500</u>
Total	\$ <u>1,800,000</u>	\$ <u>334,000</u>

Muskegon County Road Commission  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
September 30, 2005

**NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

**1. Pension Plan**

*Plan Description.* The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Road Commission. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon County Road Commission  
7700 East Apple Avenue  
Muskegon, MI 49442

*Funding Policy.* Plan members are not required to contribute to the plan. The Road Commission is required to contribute at an actuarially-determined rate; the current rate is 8.48 to 47.93 percent of annual covered payroll depending on the Plan.

*Annual Pension Cost.* For the year ended September 30, 2005, the Road Commission's annual pension cost was approximately \$372,000 which was made in accordance with contribution requirements determined by an actuarial valuation of the Plan as of December 31, 2003. The employer contribution rate has been determined using the entry age normal cost funding method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.16 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

**Three-Year Trend Information**

<u>Year ending</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percent of APC contributed</u>	<u>Net Pension Obligation</u>
9/30/03	\$200,000	100%	\$ -
9/30/04	303,000	100	-
9/30/05	372,000	100	-

**REQUIRED SUPPLEMENTARY INFORMATION**

*Schedule of Funding Progress*

(Dollars amounts in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/02	\$16,387	\$17,635	\$ (1,248)	93%	\$ 3,743	33%
12/31/03	16,466	18,222	(1,756)	90	3,564	49
12/31/04	16,576	19,176	(2,600)	86	3,583	73

Muskegon County Road Commission  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
September 30, 2005

**NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued**

**2. Deferred Compensation Plan**

The Road Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time Road Commission employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

**NOTE H—OTHER POST-EMPLOYMENT BENEFITS**

In addition to pension benefits, the Road Commission extends medical insurance coverage to retirees. This employer-paid benefit is provided upon the employee completing ten consecutive years of service and meeting other eligibility requirements. Upon that attainment, the employee and eligible dependents, as applicable, are provided with medical insurance substantially equivalent to that provided to existing employees in their classification until they are eligible for federal Medicare coverage. After becoming eligible for Medicare coverage, the Road Commission provides a Medicare supplemental policy with prescription coverage to retirees. The Road Commission has sixty-five individuals, family groups receiving benefits. The benefits are financed by the Road Commission on a pay-as-you-go basis out the General Operations Fund. Current year claims for covered individuals under the self-insurance program were \$214,831.

**NOTE I—OTHER INFORMATION**

**1. Risk Management**

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission manages its liability and property risk by participating in Michigan County Road Commission Self-Insurance Pool (MCRCSIP), a trust fund established by the road commissions in the State of Michigan. The MCRCSIP is a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to MCRCSIP for its general liability coverage. The MCRCSIP is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of certain limits. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Road Commission manages its workers' compensation risk by participating in the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Road Commission pays an annual premium to CRASIF for its workers' compensation coverage. The CRASIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and carrying reinsurance through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Muskegon County Road Commission  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
September 30, 2005

**NOTE I—OTHER INFORMATION—Continued**

**1. Risk Management—Continued**

The Road Commission carries commercial insurance for underground storage tank systems.

The Road Commission also carried commercial coverage for employee health and accident insurance until June 30, 2004. Effective July 1, 2004, the Road Commission began to self-insure for employees' health benefits and accounts for and finances its uninsured risk of loss in the General Operations Fund. Under this program, the Road Commission provides specific coverage for up to a maximum of \$75,000 per covered individual and certain aggregate coverage for the plan year. The Road Commission purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

The Road Commission operates the self-insurance program on a pay-as-you-go basis. The claims liability of \$33,387 reported in the General Operations Fund at September 30, 2005, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

Changes in the funds claims liability amount in fiscal year 2005 and 2004 were as follows.

<u>Fiscal year ended September 30,</u>	<u>Balance at beginning of year</u>	<u>Current year claims and changes in estimates</u>	<u>Claims payments</u>	<u>Balance at end of year</u>
2005	\$25,062	\$ 462,481	\$ 454,156	\$33,387
2004	-	71,969	46,907	25,062

**2. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

The Road Commission is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Road Commission's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Road Commission.

**3. Commitments**

The Road Commission has various contract agreements for road projects as of September 30, 2005 of approximately \$147,000.

Muskegon County Road Commission  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
September 30, 2005

**NOTE J—LEASE COMMITMENTS**

The Road Commission leases certain road equipment under operating leases. Lease expense for the year ended September 30, 2005 was \$117,048.

Minimum future lease commitments are as follows:

<u>Years ending September 30,</u>	<u>Amount</u>
2006	\$ 115,424
2007	104,560
2008	47,738
2009	32,686
2010	<u>12,795</u>
	<u>\$ 313,203</u>

**NOTE K—DESIGNATED FUND BALANCE**

The Road Commission designates a portion of its Act 51 revenues realized from a 1996 gasoline tax increase for the purpose of local road improvement programs in the townships. The allocation of funds is based upon road mileage and population within each township.

**NOTE L—FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2005, the federal aid received and expended by the Road Commission was \$1,476,073 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the Road Commission administers the grant and either performs the work or contracts it out.

**NOTE M—ECONOMIC DEPENDENCY**

State of Michigan revenues represent 71 percent of General Operations Fund revenues.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Muskegon County Road Commission  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES**  
**BUDGETARY COMPARISON SCHEDULE**  
General Operations Fund  
For the year ended September 30, 2005

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
Licenses and permits				
Permits	\$ 20,000	\$ 50,000	\$ 60,350	\$ 10,350
Federal aid				
Surface Transportation Program	1,000,000	1,020,000	1,025,566	5,566
Critical Bridge Program	5,000	4,000	4,669	669
Federal D funds	445,000	440,000	445,838	5,838
State aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Snow removal	82,000	85,349	85,349	-
Urban road	999,000	1,340,000	1,341,716	1,716
Allocation	8,000,000	8,061,962	8,101,259	39,297
State Critical Bridge Program	900	850	875	25
Other - salt shed construction	387,000	386,000	386,492	492
Economic development - rural	19,482	27,104	28,145	1,041
Contributions from local units				
Townships	599,000	433,855	390,751	(43,104)
Other	5,000	5,000	5,000	-
Charges for services				
State trunkline				
Maintenance	1,700,000	1,538,000	1,538,306	306
Nonmaintenance	200,000	156,849	185,597	28,748
Salvage sales	1,000	4,500	5,211	711
Other	250,000	331,885	329,890	(1,995)
Interest income	50,000	157,301	162,712	5,411
Other revenue				
Property rentals	4,000	4,000	6,900	2,900
Gain on disposal of capital assets	15,000	20,000	23,682	3,682
Other	10,000	14,235	18,159	3,924
Total revenues	13,802,382	14,090,890	\$ 14,156,467	\$ 65,577
Fund balance at October 1, 2004	9,223,760	9,223,760		
Total budget	\$ 23,026,142	\$ 23,314,650		

Muskegon County Road Commission  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES**  
**BUDGETARY COMPARISON SCHEDULE**  
General Operations Fund  
For the year ended September 30, 2005

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
Primary road				
Construction	\$ -	\$ 44,647	\$ 45,670	\$ (1,023)
Heavy maintenance	5,842,750	4,373,908	4,206,071	167,837
Maintenance	2,805,000	4,225,714	4,364,998	(139,284)
Local road				
Construction	-	-	7,747	(7,747)
Heavy maintenance	1,072,000	745,784	633,378	112,406
Maintenance	2,821,600	3,254,557	3,343,313	(88,756)
State trunkline				
Maintenance	1,700,000	1,650,000	1,640,922	9,078
Nonmaintenance	200,000	231,815	185,597	46,218
Equipment expenditures (net)				
Direct	1,325,000	1,454,863	1,424,809	30,054
Indirect	1,040,000	1,063,272	1,056,587	6,685
Operating	275,000	353,382	341,957	11,425
Less: Equipment rentals	(2,600,000)	(2,845,321)	(2,844,613)	(708)
Total equipment expenditures (net)	40,000	26,196	(21,260)	47,456
Administrative expenditures (net)				
Administrative expenditures	801,200	809,527	680,523	129,004
Less: Handling charges	(16,500)	(16,500)	(16,083)	(417)
Overhead - state	(145,000)	(145,000)	(143,098)	(1,902)
Other	(200)	(200)	(203)	3
Total administrative expenditures (net)	639,500	647,827	521,139	126,688
Capital outlay (net)				
Capital outlay	1,648,950	1,330,041	1,304,200	25,841
Less: Depreciation	(899,800)	(791,373)	(778,056)	(13,317)
Equipment retirements	(200)	(200)	(201)	1
Total capital outlay (net)	748,950	538,468	525,943	12,525
Debt service				
Principal	200,000	200,000	200,000	-
Interest and fees	81,100	81,083	72,782	8,301
Total expenditures	16,150,900	16,019,999	\$ 15,726,300	\$ 293,699
Fund balance at September 30, 2005	7,653,927	7,653,927		
Total budget	\$ 23,804,827	\$ 23,673,926		



## **OTHER SUPPLEMENTAL INFORMATION**

Muskegon County Road Commission  
**ANALYSIS OF CHANGES IN FUND BALANCE**  
 General Operations Fund  
 For the year ended September 30, 2005

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Total operating revenues	\$ 14,156,467	\$ 8,607,622	\$ 2,988,950	\$ 2,559,895
Total expenditures	<u>15,726,300</u>	<u>9,657,967</u>	<u>3,872,828</u>	<u>2,195,505</u>
Excess of revenues over (under) expenditures	(1,569,833)	(1,050,345)	(883,878)	364,390
<b>OTHER FINANCING SOURCES (USES)</b>				
Optional transfers in (out)	<u>-</u>	<u>(348,690)</u>	<u>348,690</u>	<u>-</u>
Net change in fund balance	(1,569,833)	(1,399,035)	(535,188)	364,390
Fund balance at October 1, 2004	<u>9,223,760</u>	<u>6,433,383</u>	<u>1,080,089</u>	<u>1,710,288</u>
Fund balance at September 30, 2005	<u><u>\$ 7,653,927</u></u>	<u><u>\$ 5,034,348</u></u>	<u><u>\$ 544,901</u></u>	<u><u>\$ 2,074,678</u></u>

Muskegon County Road Commission  
**ANALYSIS OF REVENUES**  
 General Operations Fund  
 For the year ended September 30, 2005

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Licenses and permits				
Permits	\$ 60,350	\$ -	\$ -	\$ 60,350
Federal aid				
Surface Transportation Program	1,025,566	1,025,566	-	-
Critical Bridge Program	4,669	-	4,669	-
Federal D funds	445,838	445,838	-	-
State aid				
Michigan Transportation Fund				
Engineering	10,000	7,312	2,688	-
Snow removal	85,349	62,407	22,942	-
Urban road	1,341,716	984,204	357,512	-
Allocation	8,101,259	5,919,882	2,181,377	-
State Critical Bridge Program	875	-	875	-
Other - salt shed construction	386,492	-	-	386,492
Economic development - rural	28,145	28,145	-	-
Contributions from local units				
Townships	390,751	-	390,751	-
Other	5,000	-	5,000	-
Charges for services				
State trunkline				
Maintenance	1,538,306	-	-	1,538,306
Nonmaintenance	185,597	-	-	185,597
Salvage sales	5,211	-	-	5,211
Other	329,890	-	-	329,890
Interest income	162,712	113,491	19,054	30,167
Other revenue				
Property rentals	6,900	-	-	6,900
Gain on disposal of capital assets	23,682	15,218	1,509	6,955
Other	18,159	5,559	2,573	10,027
Total revenues	<u>\$ 14,156,467</u>	<u>\$ 8,607,622</u>	<u>\$ 2,988,950</u>	<u>\$ 2,559,895</u>

Muskegon County Road Commission  
**ANALYSIS OF EXPENDITURES**  
 General Operations Fund  
 For the year ended September 30, 2005

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Primary road				
Construction	\$ 45,670	\$ 45,670	\$ -	\$ -
Heavy maintenance	4,206,071	4,206,071	-	-
Maintenance	4,364,998	4,364,998	-	-
Local road				
Construction	7,747	-	7,747	-
Heavy maintenance	633,378	-	633,378	-
Maintenance	3,343,313	-	2,982,356	360,957
State trunkline				
Maintenance	1,640,922	-	-	1,640,922
Nonmaintenance	185,597	-	-	185,597
Equipment expenditures (net)	(21,260)	(7,981)	(8,062)	(5,217)
Administrative expenditures (net)	521,139	366,866	154,273	-
Capital outlay (net)	525,943	409,561	103,136	13,246
Debt service				
Principal	200,000	200,000	-	-
Interest and fees	72,782	72,782	-	-
Total expenditures	<u>\$ 15,726,300</u>	<u>\$ 9,657,967</u>	<u>\$ 3,872,828</u>	<u>\$ 2,195,505</u>

Muskegon County Road Commission

**SINGLE AUDIT OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and  
Independent Auditors' Reports

September 30, 2005

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# BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 14, 2005

Board of County Road Commissioners  
7700 East Apple Avenue  
Muskegon, MI 49442

We have audited the financial statements of Muskegon County Road Commission as of and for the year ended September 30, 2005 and have issued our report thereon dated December 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Muskegon County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### ***Compliance***

As part of obtaining reasonable assurance about whether Muskegon County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

BRICKLEY DELONG

Board of County Road Commissioners  
December 14, 2005  
Page 2

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, PLC*



# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 14, 2005

Board of County Road Commissioners  
Muskegon County Road Commission  
Muskegon, Michigan

### ***Compliance***

We have audited the compliance of Muskegon County Road Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2005. Muskegon County Road Commission's major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Muskegon County Road Commission's management. Our responsibility is to express an opinion on Muskegon County Road Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muskegon County Road Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Muskegon County Road Commission's compliance with those requirements.

In our opinion, Muskegon County Road Commission complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2005.

Board of County Road Commissioners  
December 14, 2005  
Page 2

***Internal Control Over Compliance***

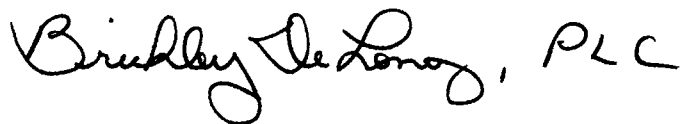
The management of Muskegon County Road Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Muskegon County Road Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of Muskegon County Road Commission as of and for the year ended September 30, 2005 and have issued our report thereon dated December 14, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in cursive script.

Muskegon County Road Commission  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended September 30, 2005

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Entitlement program or award amount</u>	<u>Accrued (deferred) revenue October 1, 2004</u>	<u>Cash or payments in kind received (cash basis)</u>	<u>Amount of grant expenditures</u>	<u>Accrued (deferred) revenue September 30, 2005</u>	<u>Note</u>
<b><i>U.S. Department of Transportation, Federal Highway Administration</i></b>							
Passed through Michigan Department of Transportation							
Highway Planning and Construction	20.205						
Proj MG0261 (330) Fed Item EE0128 Contract 02-5230		\$ 186,511	\$ -	\$ (624)	\$ (624)	\$ -	2, 3
Proj BRO0361 (024) Fed Item RR3727 Contract 04-5019		392,319	-	4,669	4,669	-	2
Proj STP0461 (313) Fed Item YY0239 Contract 04-5310		483,322	-	403	403	-	2
Proj STP0461 (316) Fed Item HH4002 Contract 04-5334		361,500	-	361,500	361,500	-	2
Proj STP0561 (016) Fed Item HH4260 Contract 05-5143		375,000	-	375,000	375,000	-	2
Proj STP0561 (019) Fed Item HH4281 Contract 05-5195		287,015	-	287,015	287,015	-	2
Proj MG0561 (018) Fed Item YY0257 Contract 05-5195		462,866	-	448,110	448,110	-	2
 TOTAL FEDERAL ASSISTANCE		 \$ 2,548,533	 \$ -	 \$ 1,476,073	 \$ 1,476,073	 \$ -	

- Notes:**
1. See the notes to the financial statements for significant accounting policies used in preparing this schedule.
  2. These programs are administered by the Michigan Department of Transportation (MDOT) and federal compliance reports of these programs are included in the single audit of MDOT.
  3. The Road Commission recorded federal revenue expended in the previous year as an estimate based on data received from MDOT. The actual federal revenue expended on this grant as shown in the final accounting documentation received during the year ended September 30, 2005 was lower than the estimate.

Muskegon County Road Commission  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended September 30, 2005

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of the Muskegon County Road Commission.
2. *No* reportable conditions in internal control were disclosed by the audit of the financial statements.
3. *No* instances of noncompliance material to the financial statements of the Muskegon County Road Commission were disclosed during the audit.
4. *No* reportable conditions in internal control were disclosed by the audit of the major federal award program.
5. The auditors' report on compliance for the major federal award programs for Muskegon County Road Commission expresses an unqualified opinion.
6. There were *no* audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Transportation</i> Highway Planning and Construction	20.205

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Muskegon County Road Commission was not determined to be a low-risk auditee.

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

NONE

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

NONE

## **CLIENT DOCUMENTS**

# Muskegon County Road Commission

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7700 East Apple Avenue  
Muskegon, MI 49442-4999  
Telephone: (231) 788-2381  
Fax: (231) 7888-5793

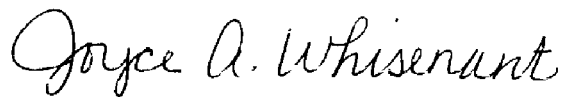
## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

December 14, 2005

Department of Transportation  
Washington, D.C.

Muskegon County Road Commission respectfully advises you that there was ***no*** single audit performed for the year ended September 30, 2004 because a single audit was not required to be performed. Accordingly, a status of prior audit findings is not required.

Sincerely,

A handwritten signature in cursive script that reads "Joyce A. Whisenant".

Joyce Whisenant  
Director of Finance

# Muskegon County Road Commission

---

7700 East Apple Avenue  
Muskegon, MI 49442-4999  
Telephone: (231) 788-2381  
Fax: (231) 7888-5793

## CORRECTIVE ACTION PLAN

December 14, 2005

Department of Transportation  
Washington, D.C.

Muskegon County Road Commission respectfully submits the following Corrective Action Plan for the year ended September 30, 2005.

Name and address of independent public accounting firm:

Brickley DeLong, PLC  
P.O. Box 999  
Muskegon, Michigan 49443

Audit period: September 30, 2005

The findings from the Schedule of Findings and Questioned Costs for the year ended September 30, 2005 provided *no* findings in either Section B or Section C. Accordingly, there are *no* matters requiring corrective action as shown below.

### B. FINDINGS—FINANCIAL STATEMENT AUDIT

#### COMPLIANCE

There were *no* compliance findings.

#### REPORTABLE CONDITIONS

There were *no* reportable conditions.

Department of Transportation  
December 14, 2005  
Page 2

**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS**

**COMPLIANCE**

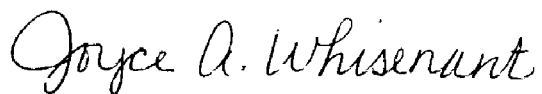
There were *no* compliance findings in relation to the major federal award programs.

**REPORTABLE CONDITIONS**

There were *no* reportable conditions in relation to the major federal award programs.

If the Department of Transportation has questions regarding this plan, please call Joyce Whisenant at (231) 788-7226.

Sincerely,

A handwritten signature in cursive script that reads "Joyce A. Whisenant".

Joyce Whisenant  
Director of Finance